

BANK OF GHANA



LIQUIDITY RISK MANAGEMENT DIRECTIVE

FOR BANKS, SAVINGS AND LOANS COMPANIES, FINANCE HOUSE COMPANIES, FINANCE AND LEASING COMPANIES AND FINANCIAL HOLDING COMPANIES

(EXPOSURE DRAFT)

Prepared by the Bank of Ghana

FEBRUARY 2026

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The Bank of Ghana (BOG) has issued the **Liquidity Risk Management Directive** to solicit comments and inputs from the banking industry and the general public, in line with the BOG's Procedures for Issuance of Directives, 2020.

In light of this, the Exposure Draft shall be made available on the BOG's website at www.bog.gov.gh from date of publication to June 30th, 2026, for comments.

All comments shall be sent to the Bank of Ghana via email at bsdletters@bog.gov.gh by 30th June 2026. The Bank of Ghana shall consider all material comments received and provide a written explanation for comments that were incorporated into the final guideline or otherwise.

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Preamble

The Global Financial Crisis that started in mid-2007 and the banking turmoil from March to May 2023 (including Silicon Valley and Signature Banks), highlighted the critical role of liquidity to the safety and soundness of financial institutions. Prior to these crises, asset prices were strong, and funding was easily accessible at low cost. The sudden shift in market conditions that were observed demonstrated how quickly liquidity can disappear and how periods of illiquidity can persist, impacting on the viability of financial institutions.

The fundamental role of financial institutions in the maturity transformation of short-term deposits into long-term loans makes financial institutions inherently vulnerable to liquidity risk. Effective liquidity risk management enables a financial institution to meet its cash flow obligations at all times, including during times of significant market stress.

Sections 36-38 of the Banks and Specialised Deposit-Taking Act, 2016 (Act 930) require Banks, Savings and Loans, Finance Houses, Finance and Leasing Companies and Financial Holding Companies (herein referred to as Regulated Financial Institutions (RFIs)) to comply with liquidity requirements as prescribed by the Bank of Ghana (BOG). The BOG has issued this Liquidity Risk Management Directive (LRMD) to clarify its expectations and ensure RFIs effectively manage their liquidity risks, by implementing appropriate governance and risk management processes.

The liquidity risk management principles set out in this directive provide the framework within which BOG assesses the content and effectiveness of the liquidity risk management of an RFI and whether that risk management program is producing adequate and appropriate forms of liquidity pursuant to Act 930.

For this purpose, BOG has established liquidity requirements in line with the Basel Principles for Sound Liquidity Risk Management and Supervision, Basel III Liquidity Coverage Ratio (LCR) and Liquidity Risk Monitoring Tools (January 2013) and Basel's Monitoring Tools for Intraday Liquidity Management (April 2013).

This directive is complemented by the **Liquidity Monitoring Tools Directive** and **Liquidity Coverage Ratio Directive** (applicable to banks only) which when implemented as a package, provides a comprehensive qualitative and quantitative perspective of an RFI's liquidity risk management and adequacy. To address increased liquidity risk in an RFI, BOG may impose a higher liquidity requirement and/or other actions.

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PART I - PRELIMINARY

Title

1. This Directive shall be cited as the Bank of Ghana Liquidity Risk Management Directive (LRMD), 2026.

Application

2. This Directive is issued under the powers conferred by Sections 36(2) and 92(1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).
3. This Directive shall apply to Banks, Savings and Loans, Finance Houses, Finance and Leasing and Financial Holding Companies, hereinafter referred to as Regulated Financial Institutions (RFIs), licensed or registered under Act 930.
4. This Directive shall be read in conjunction with the Risk Management Directive, 2021, Liquidity Monitoring Tools Directive, 2026, Liquidity Coverage Ratio Directive, 2026 as well as the Corporate Governance Directive, 2018.

Definitions and Interpretation

5. In this Directive, unless the context otherwise requires, words used have the same meaning as that assigned to them in the applicable law (such as Act 930) and other Directives issued by the BOG or as follows:

“Act 930” means the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

“Ancillary Systems” means other payment systems such as retail payment systems, securities settlement systems and central counterparties.

“BOG” means the Bank of Ghana.

“Board” means the board of directors of a Regulated Financial Institution.

“Business Day” means the opening hours for the Ghana Interbank Settlement (GIS) during which a bank can receive and make payments within the day.

“Contingency Funding Plan (CFP)” means the compilation of RFI’s policies, procedures and action plans for responding to severe disruption to its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

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Specifically, it is RFI's strategy for handling a variety of prospective liquidity stress events with the goal of maintaining market confidence and franchise value.

“Eligible Collateral for Repo or Depo” means Treasury bills and notes issued by the Government of Ghana, bonds issued or guaranteed by the Government of Ghana, Bank of Ghana bills, Eurobonds issued by the Government of Ghana, corporate bonds listed on the Ghana Fixed Income Market, and any other collateral eligible under the BOG Guidelines for Global Master Repurchase Agreement (GMRA).

“Encumbered Assets” means an RFI's asset that is tied to legal, regulatory, contractual or other restrictions for which the RFI is unable to liquidate, sell, transfer, or assign the asset.

“Enterprise-Wide Stress Test” means stress test that assesses the impact of a shock on the RFI, as a whole, as opposed to focusing on individual business lines, sectors, portfolios or products within the RFI.

“Funding Liquidity Risk” means the possibility that over a specific horizon the bank will be unable to settle its obligations immediately as they fall due.

“Ghana Interbank Settlement (GIS)” means Ghana's Real Time Gross Settlement System (RTGS) which is a funds transfer system that typically handles large-value and high-priority payments in Ghana.

“Group of Connected Counterparties” means two or more persons who satisfy at least one of the following criteria:

- Control relationship: one of the counterparties, directly or indirectly has control over the other(s);
- Economic interdependence: if one of the counterparties were to experience financial problems, in a particular funding or repayment problems, the other(s), as a result, would also be likely to encounter funding or repayment difficulties.

“Intraday Liquidity” means funds which can be accessed during the business day, usually to enable banks to make payments in real time.

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“Intraday Liquidity Risk” means the risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.

“Intraday Throughput” means the daily percentage of outgoing payments relative to total payments that settle by specific times during the day, by value within each hour of the business day.

“Liquidity” means the ability of a bank to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.

“Liquidity Risk” means the risk that an RFI’s financial condition or overall safety and soundness is adversely affected by an inability (real or perceived) to meet its contractual obligations.

“Liquidity Risk Appetite” means the aggregate level and types of liquidity risk an RFI is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and plans.

“Liquidity Risk Limits” means specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the RFI’s aggregate liquidity risk to business lines, RFI’s subsidiaries and relevant specific risk categories, concentrations and, as appropriate, other measures.

“Liquidity Risk Management” means the strategies and processes established to ensure that liquidity risk is identified, measured, mitigated, monitored and reported on a timely and comprehensive basis.

“Liquidity Risk Tolerance” means the maximum level of liquidity risk that the RFI is willing to operate within, which is expressed as its risk limit based on the risk appetite, risk profile and capital strength.

“Liquidity Stress Test” means the process of assessing the impact of an adverse scenario on an RFI’s cash flow as well as on the availability of funding sources, and on market prices of assets.

“Management Actions” means actions that would be taken by an RFI in response to an adverse (stress) scenario that would otherwise not be taken in a base case scenario. These actions typically include but are not limited to raising of capital,

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reductions in risk-weighted assets, adjustment to business strategies, reductions in expenses, hedging of exposures, revision of credit policies or disposal of assets.

“Regulated Financial Institutions (RFI)” means a Bank, Savings & Loans, Finance House, Finance and Leasing and Financial Holding Companies licenced or registered under Act 930.

“Senior Management” means members of the Executive Management Committee (EXCO) of an RFI and any other Key Management Personnel (KMP) as may be determined by the RFI.

“Time-Specific Obligations” means obligations which must be settled at a specific time within the day or have an expected intraday settlement deadline.

“Unencumbered Assets” means an RFI’s assets that are free of legal, regulatory, contractual or other restrictions on the ability of the RFI to liquidate, sell, transfer, or assign the asset.

Objectives

6. The objectives of this directive are to ensure RFIs:
 - a. maintain adequate, high-quality liquidity buffers at all times to meet all obligations and commitments, plan for unforeseen obligations and survive periods of liquidity stress;
 - b. have robust systems for identifying, measuring, evaluating, controlling and reporting liquidity and funding risks; and
 - c. clearly understand BOG’s supervisory expectations in relation to the approach to assessing the adequacy of RFIs’ liquidity risk management frameworks and their liquidity positions.

Proportionality

7. RFIs shall align their liquidity risk management practices with the requirements of this Directive. However, in assessing the quality of RFIs’ management of liquidity risk, the BOG will take into account the principle of proportionality. In particular, the assessment will be aimed at ensuring that:

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- a. RFIs' processes and tools for management of liquidity risks are commensurate with the risk profile, systemic importance, market and macroeconomic conditions as well as the scale and complexity of their activities; and
- b. the regulatory objectives of ensuring the safety and soundness of RFIs and promoting the stability of the financial system are effectively achieved.

Transitional Arrangements and Implementation Date

8. This Directive shall take effect from **1st January 2027**.
9. RFIs are required to align their governance arrangements, risk management frameworks as well as internal policies and processes with the requirements of this Directive by **31st December 2026**.

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LIQUIDITY RISK MANAGEMENT DIRECTIVE, 2026**PART II – GOVERNANCE AND RISK MANAGEMENT FRAMEWORK****Roles and Responsibilities of the Board**

10. The Board shall be ultimately responsible for the liquidity risk assumed by the RFI and the approach with which this risk is managed.
11. An RFI's Board shall review and approve the strategy, policies and practices related to the management of liquidity at least annually and ensure that Senior Management effectively manage liquidity risk. In fulfilling its responsibility, the Board shall:
 - (a) review and approve a robust liquidity management framework including appropriate strategies and policies to ensure the RFI maintains sufficient liquidity to withstand a range of stress events;
 - (b) develop clear and effective communication and disclosure strategies to relevant stakeholders, particularly during stress events;
 - (c) set the liquidity risk tolerance level in light of its business strategy, overall risk appetite as well as its role in the financial system to ensure that the RFI prudently manages its liquidity in normal times such that it is able to withstand a prolonged period of stress;
 - (d) approve a liquidity risk appetite which defines the level of liquidity risk that the RFI is willing and able to assume;
 - (e) review and when necessary update the RFI's strategies, policies and processes, at least annually;
 - (f) ensure that the RFI has the necessary resources and systems to identify, measure, monitor, control and report all sources of liquidity risk. This includes ensuring that Senior Management and other officers responsible for managing liquidity risk have the necessary expertise to execute their assigned responsibilities effectively;
 - (g) regularly review reports on the liquidity position of the RFI. This includes ensuring that Senior Management also provides timely updates to the Board on new or emerging liquidity vulnerabilities;
 - (h) regularly review and challenge stress testing assumptions and results, even during periods when liquidity is abundant in the market;

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- (i) review and approve the RFI's contingency funding plan annually, at a minimum, or more often as warranted by changes in business strategy and/or market conditions; and
- (j) ensure that Senior Management takes appropriate and timely remedial actions to address any liquidity risk and vulnerabilities, including those arising from liquidity stress tests and the testing of contingency funding plans.

12. The Board shall, on a quarterly basis, provide its assessment of the liquidity adequacy of the RFI through a Liquidity Adequacy Statement (LAS) to the BOG. The assessment shall be supported by Internal Liquidity Adequacy Assessment Process (ILAAP), and the outcome shall be embedded in the annual Internal Capital Adequacy Assessment Process (ICAAP) report submitted to the BOG.

13. The Board and Senior Management shall have an appropriate understanding of funding and market liquidity risks, including their inter linkages, and the impact that other risks such as credit, market, operational and reputational risk may have on the RFI's overall liquidity risk strategy.

Roles and Responsibilities of Senior Management

14. Senior Management shall ensure the effective implementation of the liquidity risk management framework, and that staff involved in its implementation have a sound understanding of the framework.

15. The RFI's Senior Management shall:

- a. develop and implement strategies, policies and processes to manage liquidity risk in accordance with the Board-approved risk appetite and ensure that the RFI maintains sufficient liquidity; and
- b. continuously review information on the RFI's liquidity developments and report, as appropriate, to the Board and BOG.

16. The RFI's documented liquidity strategies, policies and processes shall be communicated and understood at all relevant levels of the RFI. These policies shall include:

- a) Composition and maturity of both on- and off—balance sheet assets and liabilities;

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- b) Diversity and stability of funding sources;
- c) Quantitative thresholds of the RFI, which, at a minimum, shall be consistent with regulatory requirements;
- d) The processes for identifying, reviewing, approving and applying stress test scenarios and related assumptions¹;
- e) The size and composition of stock of liquid assets that is available to generate cash in a stress environment;
- f) Contingency funding plans;
- g) The approach to managing liquidity in different currencies, across business lines and, where applicable, across borders and legal entities;
- h) The approach to intraday liquidity management;
- i) Monitoring current trends and potential market developments that may materially impact liquidity risks;
- j) Management of collateral including pledging and apportionment; and
- k) Limit setting and review, the process for escalating exceptions to policies and limits, as well as follow-up actions to be taken for breaches of limits².

17. Senior Management shall ensure that the RFI has adequate internal controls and clearly identifies its delegates for managing liquidity risk. To avoid potential conflicts of interest, Senior Management shall ensure adequate separation of responsibilities in key elements of its liquidity risk management processes.

Risk Management Framework

18. RFIs shall have liquidity risk identification, measurement, monitoring, control and reporting functions with clearly defined skills, responsibilities and independence to challenge information and assumptions provided by business lines.

19. The liquidity risk management oversight responsibilities shall be embedded in the RFI's risk management oversight function for which the Chief Risk Officer (CRO) shall be ultimately responsible as prescribed in BOG's Corporate Governance Directive, 2018 and Risk Management Directive, 2021.

¹ This includes assumptions on the liquidity and marketability of assets.

² This should include the escalation procedures and follow-up actions to be taken for breaches of the set limits.

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20. The RFI's Assets-Liability Management Committee (ALCO) and any other management committee shall oversee liquidity risk management in line with the Corporate Governance Directive, 2018. The committee shall be responsible for managing the strategic direction of liquidity and funding risk within the RFI.

21. RFIs shall have a Board-approved and robust liquidity risk management framework that is well integrated into its enterprise-wide risk management processes. The framework should ensure that the RFI maintains sufficient liquidity, including a cushion of unencumbered, High Quality Liquid Assets (HQLA), to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

22. The RFI's liquidity risk management framework shall, at a minimum, include:

- a) A statement of the liquidity risk appetite;
- b) The policies and procedures for identifying, measuring, monitoring, controlling and reporting its liquidity risk in accordance with its liquidity risk tolerance;
- c) The capacity to periodically conduct liquidity stress tests to analyse changes to funding requirements under combinations of extreme but plausible RFI-specific and market-wide stress scenarios;
- d) The maintenance of a cushion of high quality, unencumbered liquid assets to be held against identified funding requirements under stress³;
- e) A Contingency Funding Plan (CFP) that reflects the outcomes from the RFI's liquidity risk stress testing programs;
- f) A framework for assigning the costs and benefits to the internal use and provision of liquidity;
- g) A funding strategy that ensures diversification of funding sources across several dimensions such as products, tenors, business lines, and RFI's subsidiaries, and critically assesses the volatility of foreign currencies;
- h) A methodology for managing intraday liquidity positions and risks; and
- i) Arrangements for disclosure of liquidity positions, risks and the commensurate risk management practices undertaken.

³ The liquidity cushion should be commensurate to the complexity of the RFI's on- and off-balance sheet activities, liquidity of the RFI's assets and liabilities, the extent of the RFI's funding mismatches and diversity of its business mix and funding strategies.

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23. The RFI's liquidity risk management strategy shall take into account its liquidity needs under both normal and stressed market conditions and shall include high-level quantitative and qualitative targets⁴.
24. An RFI shall clearly articulate how the implementation and monitoring of its strategy and risk appetite are supported by its ILAAP, and how this effectively allows it to comply with the limits and thresholds set out in the Risk Appetite Statement (RAS).

Independent Review

25. The Internal Audit Function (IAF) shall review at least annually, the implementation and effectiveness of the approved framework including policies and procedures for managing liquidity risk.
26. The ILAAP outcomes and assumptions shall be subject to regular internal review. The review shall take due account of the limits and constraints arising from the methodologies employed, the underlying assumptions and the data used in quantifying the risk.
27. The outcome of the review shall be reported to the Board and Senior Management, and any identified weaknesses should be addressed in an effective and timely manner.

⁴ The quantitative targets should be at a minimum consistent with BOG's regulatory thresholds.

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PART III – MEASUREMENT, MANAGEMENT AND MONITORING OF LIQUIDITY RISK

Measurement and Management of Liquidity Risk

28. An RFI's liquidity risk management process shall include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The framework shall have several dimensions including:

- a) Reliable systems and personnel to ensure timely measurement, monitoring and reporting of liquidity positions against the set limits to Board and Senior Management for information and appropriate action as necessary⁵.
- b) A rigorous and comprehensive liquidity measurement framework that is integrated within their liquidity management strategy and Contingency Funding Plans (CFPs). Components of the framework shall include:
 - (i) A process for measuring and reporting funding requirements through the projection of contractual and contingent cash flows under a number of alternative scenarios;
 - (ii) The ability to measure liquidity in the material currencies in which the RFI conducts business, including on a subsidiary basis in all jurisdictions in which the RFI is active and on an aggregate group basis;
 - (iii) A process for ensuring that the assumptions used in the projection of future cashflows are reasonable and appropriate, documented and periodically reviewed and approved by the Board; and
 - (iv) Maintenance of a stock of high-quality unencumbered liquid assets that can be converted under stress conditions into cash inflows without incurring unacceptable losses.
- c) A CFP that is linked to the outcomes of the liquidity stress testing program.
- d) Appropriate processes for:
 - (i) setting internal limits and ensuring proper internal controls in accordance with the risk tolerance⁶;
 - (ii) controlling risk-taking incentives of individual business lines to ensure they are aligned with the liquidity risk exposures they create for the RFI;

⁵ The liquidity position should, where applicable, take into account: (a) future cash flow of assets and liabilities, (b) off-balance sheet positions (commitments and other contingent liabilities), (c) currencies in which the RFI is active, and (d) correspondent, custody and settlement activities.

⁶ The set internal limits and corresponding escalation procedures should be reviewed regularly. The limits should also be relevant to the RFI given the nature of its products, currencies, markets etc.

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- (iii) Managing access to a diversified set of funding sources and tenors; and
- (iv) Assessing aggregate foreign currency liquidity needs and determining the acceptable currency mismatch.

e) An early warning system consisting of indicators pointing to emerging vulnerabilities in liquidity risk position or potential funding needs. Such indicators may be qualitative or quantitative in nature.

f) These early warning indicators must be aligned with liquidity-related recovery indicators in the RFI's recovery plan. RFIs shall be guided by the following early warning indicators, but are not limited to:

- i. Rapid asset growth, especially when funded with potentially volatile liabilities;
- ii. Growing concentrations in assets or liabilities;
- iii. Increases in currency mismatches;
- iv. Decreases in weighted average maturity of liabilities;
- v. Repeated incidents of positions approaching or breaching internal limits;
- vi. Significant deterioration in the financial institution's earnings, asset quality and overall financial condition;
- vii. Widening debt spread; and
- viii. Rising wholesale or retail funding costs.

29. An RFI shall establish an appropriate Management Information System (MIS) that provides the Board, Senior Management and other relevant officers timely and forward-looking information on its liquidity position.

30. The MIS shall calculate liquidity positions in various currencies in which the RFI conducts business, both at the subsidiary level and at the consolidated level, where applicable.

31. The MIS shall identify sources of liquidity risk, and this shall entail the ability to generate more granular and comprehensive reports as and when required (such as during stress events), at a higher reporting frequency and with a reduced turnaround time.

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Monitoring Of Liquidity Risk At The Group Level⁷

32. RFIs shall actively monitor and control liquidity risk exposures and funding needs within the RFI's business lines and currencies, and where applicable, their subsidiaries as well as at the group level, taking into account legal, regulatory and operational limitations to the transferability of liquidity. To achieve this, RFIs shall have appropriate processes for:

- a) aggregating data with a view of developing a group-wide view of exposure to liquidity risk; and
- b) identifying any constraints on transferability of liquidity within the group, where applicable.

33. Where foreign currency denominated liabilities or assets, in aggregate, represents more than 5% of its total liabilities or total assets, an RFI shall comprehensively document its approach to management of its foreign currency positions within its liquidity risk management policies.

34. In addition to developing processes for sustaining continuous access to liquidity for the RFI and its subsidiaries in the event of a funding shortfall, the RFI's liquidity risk management policies shall, amongst others, describe:

- a) any internal liquidity support arrangements (i.e., intra-group transfers) that may be provided;
- b) how the RFI addresses potential transferability constraints within the group due to legal, regulatory or operational restrictions;
- c) measures aimed at ensuring effective communication with counterparties and other stakeholders in the event of liquidity challenges; and
- d) mechanisms aimed at mitigating reputational contagion which may include group-wide contingency plans, liquidity cushions or multiple sources of funding.

35. RFIs shall also, where applicable, establish internal limits:

- a) on intragroup liquidity risk to mitigate the risk of contagion under stress;
- b) at subsidiary level to constrain the reliance on funding from elsewhere within the Group; and

⁷ Shall apply to Financial Holding Companies, as well as banks and specialised deposit-taking institutions that are part of a financial group.

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c) for each material currency used by the RFI⁸.

36. An RFI shall document how domestic and foreign currency cash flows and funding needs will be met in the ordinary course of business as liquidity may not be fungible under a stress contingent event.

37. RFI's internal information systems shall have the capacity to account for sensitivities to changes in liquidity of foreign currency swap markets and volatility of funding currencies. Where cash flow mismatches in an individual currency are deemed to be material, the policy on gap limits with respect to that individual currency shall be addressed in the overall foreign currency liquidity policy.

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⁸ These limits should be stricter where ready conversion between currencies is uncertain, particularly under stressed market conditions.

LIQUIDITY RISK MANAGEMENT DIRECTIVE, 2026**PART IV - LIQUIDITY STRESS TESTING FRAMEWORK****Liquidity Stress Testing**

38. An RFI shall conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with an RFI's established liquidity risk tolerance.
39. An RFI shall use stress test outcomes to adjust its liquidity risk management strategies, policies, and processes and develop effective contingency plans.
40. RFIs shall develop a comprehensive liquidity stress testing program that considers multiple scenarios of varying degrees of severity and time horizons, including on an intraday basis.
41. An effective stress testing program shall involve the design of extreme but plausible scenarios that capture the following elements:
 - a) RFI-specific events (for example: loss of major deposits; a significant increase in demand for loans and other funding; and increases in off-balance sheet exposures, including committed credit and liquidity facilities);
 - b) Market-wide disruptions (for example, those based around events that might cause a mass flight to quality assets or a re-pricing of market prices or investor risk appetite); and
 - c) Combinations of the above items.
42. In designing stress scenarios, an RFI shall take into consideration its business model, operations and vulnerabilities. This is to ensure that the selected scenarios incorporate the major funding and market liquidity risks to which the RFI is exposed.
43. The selected scenarios shall allow the RFI to evaluate the potential adverse impact these factors can have on its liquidity position.
44. In the assessment of contingent liquidity risks embedded in an RFI's balance sheet and funding profile, RFIs shall consider both contractual and legal requirements needed to meet unexpected funding obligations.

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45. For RFIs with foreign currency liquidity position, the stress testing exercise shall specifically consider additional scenarios that assess the impact of a disruption to material cross-border funding channels and currencies.

46. In addition, it is critical that an RFI uses stress testing to assess the reputational impact that failing to meet non-contractual and revocable liquidity obligations would have on the RFI.

47. An RFI shall consider the following, amongst others, in assessing the severity of estimated funding gaps or shortfalls and determining the appropriate management actions:

- Size and timing of the funding gap, relative to total funding;
- The level of actual stress (whether RFI-specific or market-wide) relative to the modelled level of stress;
- The level and diversity of funding sources available to meet that shortfall; and
- Size of the stock of unencumbered HQLA to meet that shortfall.

48. The results from scenario tests shall be reported in a timely and regular manner to the Board and Senior Management. The stress test results shall:

- be compared against the stated risk tolerance of the RFI; and
- be integrated into management actions, including setting internal limits, strategic planning process and internal transfer pricing systems.

49. RFIs shall employ forward looking measures for the determination of funding requirements under a range of stress scenarios.

50. For stress testing purposes, the Maturity Ladder shall determine, for various time buckets, the combination of normal contractual-based cash flows and behaviorally modified cash flows under stress⁹.

⁹ A number greater than zero in any particular time bucket represents a net cash inflow whereas a number less than zero is a net cash outflow. This process can be repeated over a series of adjacent time buckets (which are usually quite granular in the short-term and then coarser past one year) enabling the RFI to identify (depending on assumptions) funding gaps, or net outflows, within any future time period. A net cumulative stressed outflow position at any future time bucket can be ascertained by adding the net flow positions from all earlier time buckets.

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Behavioral assumptions under stress

51. RFIs shall carefully review and, where necessary, update their behavioral assumptions under stress. Contingent cash flows arising under stress are often low probability events, but they can have potentially large funding implications. As such, RFIs shall apply an extra degree of conservatism in the design of these assumptions by, for example, assigning later dates to cash inflows and earlier dates to cash outflows, in uncertain situations.

52. For each secured and unsecured funding source, an RFI shall use behavioral assumptions to determine whether each liability with contractual maturity would be repaid or be partially/fully rolled over.

53. For liabilities without contractual maturities, or those with embedded options that would reduce the effective term, the RFI shall design a schedule for run-off assumptions over the relevant stress horizon. Additionally, where the RFI depends on secured funding, it must incorporate assumptions about the capacity of the funding market to continue to roll over in an environment where the RFI's creditworthiness may be in question.

54. RFIs shall take conservative approach when defining their stress testing assumptions, taking into account, the type and severity of the scenario. RFIs shall use assumptions which are plausible and relevant to its business model and shall consider the appropriateness of such assumptions, which shall include but not limited to the following:

- i. The run-off of retail funding;
- ii. The loss/unavailability of wholesale funding sources;
- iii. The correlation between funding markets or the effectiveness of diversification across sources of funding;
- iv. Additional margin calls and collateral requirements;
- v. Funding tenors;
- vi. The availability of contingent lines extended to the RFI;
- vii. Foreign Exchange (FX) convertibility and access to FX markets;
- viii. The access to BOG facilities (e.g. Emergency Liquidity Assistance); and
- ix. Estimates of future balance sheet growth.

Liquidity Buffer and Stock of High-Quality Liquid Assets (HQLA)

55. An RFI shall maintain a cushion of unencumbered, HQLA to mitigate against a range of liquidity stress scenarios, including those that involve the loss or impairment of unsecured and typically available secured funding sources.

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56. In order to satisfy potential funding gaps, RFIs shall maintain adequate liquidity buffers consisting of high-quality unencumbered assets that can be easily and immediately converted into cash at little or no loss of value¹⁰. Such assets shall:

- a) be traded in broad and active secondary markets and RFIs should be able to demonstrate to BOG that such assets can be liquidated through their sale, or pledged through a repurchase agreement at all times, to a wide range of counterparties without incurring a substantial discount;
- b) share the common characteristics of, but not limited to, instruments that are eligible in BOG and, where applicable, other central banks for open market operations and instruments that are marketable; and
- c) be available at all times to meet the RFI's liquidity needs as and when they arise, i.e., there shall be no legal, regulatory or operational impediment to the use of these assets to obtain funding.

57. The conditions in (a) and (b) above are particularly necessary for the assets to be deemed as HQLA, which are dependable sources of cash flow under a diverse set of stress contingencies.

58. The purpose of the stock of liquid assets is to provide the RFI with a source of available funds to meet normal and contingent cash flow needs as determined from stress testing outcomes so that the RFI has the necessary time to:

- a) access alternative sources of funding, upon initiation of a contingency funding plan, provided circumstances giving rise to a liquidity problem are temporary; and
- b) survive an RFI-specific and/or market-wide liquidity stress event until other longer-term measures or solutions can take effect.

59. The stock of liquid assets should be adequate to ensure that the RFI is continuously compliant with both internal limits and any prescribed regulatory requirements.

¹⁰ The assessment of potential funding gap during period of stress should incorporate contractual and non-contractual cash flows, including the possibility of funds being withdrawn, and should include the assumption (possibility) of inability to obtain unsecured funding as well as the loss or impairment of access to funds secured by assets other than the safest, most liquid assets.

LIQUIDITY RISK MANAGEMENT DIRECTIVE, 2026**Adequacy of the Stock of Liquid Assets**

60. RFIs shall consider the relevant factors when determining the level of the stock of liquid assets relative to the liquidity risk profile, these shall include:

- a) The stability of funding sources - RFIs relying on less "sticky" forms of deposits, and/or using wholesale funding sources shall hold a larger stock of liquid assets;
- b) The cost and diversity of funding - RFIs with higher funding costs shall hold a larger stock of liquid assets;
- c) Short-term funding requirements – RFIs with a funding mix geared towards shorter term maturity liabilities shall hold a larger stock of liquid assets;
- d) The level of contingent funding needs - in times of stress, contingent funding needs might be elevated, which shall be covered by holding a larger stock of liquid assets;
- e) The degree of integration of liquidity management with that of a parent RFI as well as the financial strength of an RFI's parent; and
- f) The regulatory regime of the country in which the parent of the RFI is located.

61. The liquidity policies of an RFI shall clearly define the role of the stock of liquid assets within the overall liquidity management framework (including a methodology for classifying, ranking and adjusting the liquidity value of assets) and establish minimum targets for holdings of liquid assets.

Liquidity Value

62. Part of the consideration in determining the adequacy of the stock of liquid assets is the assignment of liquidity values to particular asset classes. Such values represent an assessment of the possible discounts an RFI may face in selling down or borrowing against its stock of liquid assets to meet a funding shortfall. Such an assessment shall reflect the level of stress. Liquidity values shall be:

- a) more conservative than, for instance, the more generalised haircuts associated with collateral pledged to meet margin requirements;
- b) re-assessed by Senior Management annually as part of the normal review process of the appropriateness of the RFI's stress testing program; and
- c) assessed with greater frequency in periods of market-wide stress.

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63. RFIs shall consider the following factors while determining liquidity values or haircuts:

- a) The quality of the asset – instruments that are highly liquid and easily accepted as collateral in repo transactions during various stress scenarios are preferable. Generally, the higher the credit quality of the underlying asset, the greater its marketability;
- b) The structure of the market for the asset – an active number of market participants with transparent price discovery, enhances the potential liquidity value of an asset;
- c) Diversity within the stock of liquid assets – capacity to liquidate or repo particular assets can vary across scenarios for reasons beyond the RFI's control. A concentrated portfolio of liquid assets reduces its overall liquidity value, particularly when those assets are to be liquidated in a narrow market; and
- d) The presence of any legal or practical encumbrance to the sale or borrowing against the asset.

Asset Encumbrance

64. An RFI shall manage its collateral positions, by distinguishing between encumbered and unencumbered assets. An RFI shall monitor the legal entity and/or its affiliates that own the collateral, as well as, the physical location where the collateral is kept, ensuring that it can be accessed and mobilized promptly when needed.

65. When determining which assets can be included in a stock of liquid assets, an RFI shall also consider which assets are subject to any encumbrances that would prevent a quick sale. For example, assets pledged to secure specific obligations – like advances to settle payments in a large value payment system, overnight advances from a central bank, or margin requirements – shall not be considered part of the stock of liquid assets.

66. An RFI shall have internal policies for the pledging of assets and monitoring of its execution.

67. An evaluation of current level of asset encumbrance and the likelihood that assets within the stock of liquid assets could become encumbered in the future, shall also be taken into account. If such assessments cannot be

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conducted, the RFI shall hold a larger stock of liquid assets or impose lower liquidity values to compensate for uncertainty of encumbrance.

68. RFIs shall actively monitor their pledging and apportionment of assets to clearing and settlement organizations, as part of their ongoing liquidity management program. Pledges of assets for these purposes require special focus because they can involve encumbrances on an intraday basis that are typically released at the end of a settlement cycle. To the extent that these assets are included in an end-of-day measure of liquidity, they shall be separately identified.

69. Cash flow measures are generally used to identify funding mismatches, whether contingent (arising under stress scenarios) or structural (persistent imbalances in the funding profile). An RFI shall apply measures to assess structural imbalances between its illiquid assets and sources of long-term funding.

Contingency Funding Plan

70. An RFI shall have a Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.

71. The RFI's Board shall review and approve the CFP at least annually, or more often as changing business or market circumstances may require.

72. The CFP shall include policies for managing a range of stress scenarios, define clear lines of responsibilities, outline explicit procedures for activation and escalation, and be regularly tested and updated to ensure that it is operationally robust. An effective CFP shall, at a minimum, consist of the following:

- a) A set of early warning indicators (potentially informed by stress test results) that identify the emergence of increased risk or vulnerabilities to the RFI's liquidity risk position or potential funding needs¹¹. Any identified negative trends in these indicators shall be assessed, and escalated for appropriate management actions, including the likely trigger of the CFP;
- b) An outline of diversified set of viable, readily accessible and flexibly deployable funding options to maintain liquidity and cover cash flow

¹¹ Early warning indicators may either be qualitative or quantitative and include rapid asset growth, growing concentrations in assets or liabilities, increases in currency mismatches, and negative publicity.

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shortfalls during adverse situations. These measures shall address both RFI-specific and market-wide stress events at multiple time horizons;

- c) Action plans to manage assets and liabilities of the RFI to protect or realize their value. These plans include, marketing assets more aggressively, selling assets originally intended to be held, extending maturity profile of liabilities, raising interest rates on deposits and utilizing off-balance sheet sources;
- d) An identification of alternative sources of funds to address liquidity shortfalls. This shall include designating primary and secondary sources of liquidity as well as activities that consume liquidity;
- e) Clear escalation/prioritization procedures detailing when and how each of the proposed actions can and shall be activated;
- f) An identification of borrowers and trading customers in terms of their importance to the RFI in order to maintain customer relationships; and
- g) Plans and procedures for communicating with the providers of funding, the BOG, the media and the public.

73. Contingency plans shall include procedures for making up cash flow shortfalls in emergency situations. The plan shall spell out as clearly as possible the sources of funds an RFI expects to have available from various sources and, where possible, the time periods for which the proposed contingency measures can be carried out under various assumptions and stresses.

74. RFIs shall notify the BOG in emergency situations and upon the initialization or de-escalation of a CFP and provide regular updates in a timely manner. Further, the BOG may, on a case-by-case basis, impose additional reporting requirements on a specific RFI.

75. The development, and ongoing maintenance of CFPs shall be integrated within the RFI's liquidity stress testing program. The potential action plans outlining the process for the escalation of the CFP shall particularly be informed by the outcome of robust liquidity stress tests exercise. Further:

- a) if a scenario is designed where activation of the CFP shall be needed, then the underlying assumptions shall be aligned to reflect this requirement; and
- b) the CFP shall address issues over a range of time horizons, including intraday transactions.

76. In designing their CFPs, RFIs shall also take into consideration:

- a) the impact of stressed market conditions on its ability to sell assets;

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- b) reputational effects related to execution of contingency funding measures; and
- c) legal, regulatory and operational restrictions and constraints on the transfer of liquidity across business lines, group entities and, where applicable, across borders.

77. The CFP shall be consistent with the RFI's business continuity plans and shall be operational under situations where business continuity arrangements have been invoked.

Assignment of Liquidity Costs and Benefits

78. An RFI shall incorporate liquidity costs, benefits and risks into its internal pricing, performance evaluation and new product approval processes for all significant business activities (both on - and off -balance sheet). This is to ensure that the risk-taking incentives of individual business lines are aligned with the liquidity risk exposures their activities create for the RFI.

79. RFIs shall incorporate liquidity costs and benefits into their internal funds transfer pricing program. This program shall charge business lines for the cost of funding all significant activities based on the liquidity consumed, while also crediting business lines that generate liquidity at a cost lower than the RFI's funding rate¹².

Funding Strategy and Managing Market Access

80. An RFI shall develop and document a three (3)-year funding strategy which should be consistent with its business strategy. The funding strategy shall be reviewed and updated annually and approved by the Board¹³.

81. An RFI shall carefully design its funding diversification strategies with the aim of improving its capacity to withstand a range of institution-specific and market-wide stress scenarios. These funding strategies shall be complemented with limit setting practices, where deemed appropriate, given that breaches of the set limits can represent a good indicator of emerging funding gaps.

¹² This will initially apply to Banks ONLY. SDIs are however encouraged to build capacity to be able to meet this expectation

¹³ The review should consider any changes in the internal and/or external environment.

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82. As a check for adequate diversification of liabilities, an RFI shall regularly examine the level of reliance on individual funding sources by instrument type, tenor, provider of funds, currency and geographical market, and set internal limits on the maximum amount of funds it will accept from any one counterparty or specific funding markets.

83. An RFI shall maintain an active and ongoing presence in its funding markets and strong relationships with funding providers outside the RFI's group to, amongst others, provide a line of defence in liquidity management¹⁴. An RFI shall also:

- a) regularly gauge its capacity to raise funds quickly;
- b) identify the main factors that affect its ability to raise funds and monitor those factors closely to ensure that estimates of fund-raising capacity remain valid;
- c) assess the potential impact of market disruption and other adverse scenarios on access to funding markets in the short and long term; and
- d) consider the effects that losses and the resulting reduction in capital could have on its ability to maintain funding relationships.

Management of Intraday Liquidity Position and Risk (Banks Only)

84. An RFI shall actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems.

85. RFIs shall implement measures, such as developing contingency plans to address the liquidity implications of a disruption in the payment system. The RFI shall also have back-up service arrangements to avoid cashflow disruptions.

86. An RFI's strategy for managing intraday liquidity risk shall include the following operational elements:

- a) The capacity to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast potential net funding shortfalls that might arise at different points during the day;

¹⁴ This may require ongoing commitment and investment in adequate and appropriate infrastructures, and processes.

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- b) The capacity to monitor intraday liquidity positions such as account balances, remaining intraday credit capacity, and eligible collateral in real time, comparing them against expected activities and available resources;
- c) Mechanisms to acquire sufficient intraday funding to meet its intraday commitments;
- d) The ability to manage and mobilize collateral as necessary to obtain intraday funds;
- e) Capability to manage the timing of its liquidity outflows in line with its intraday commitments; and
- f) Preparedness to deal with unexpected disruptions to its intraday liquidity flows.

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LIQUIDITY RISK MANAGEMENT DIRECTIVE, 2026**PART V - DISCLOSURE**

87. An RFI shall publicly disclose information on a regular basis that enables market participants to make informed judgment about the soundness of its liquidity risk management framework, ability to meet its liquidity needs and its liquidity position. This information shall include:

- a) The organisational structure and framework for the management of liquidity risk. In particular, the disclosure shall describe the roles and responsibilities of the Board, Senior Management and relevant committees, as well as those of different functional and business units;
- b) The degree of centralisation in its liquidity risk management practice and how that degree impacts funding activities, limit setting and intra-group lending strategies;
- c) An articulation of liquidity risk appetite and tolerance as well as details of how compliance with that appetite and tolerance are assessed;
- d) Quantitative measures such as the composition and size of the stock of liquid assets, the value of internal ratios and other key metrics that management monitors;
- e) Qualitative discussion of its metrics such as the time span covered, whether computed under normal or stressed conditions, and assumptions applied in the assessment of the RFI's liquidity position, liquidity risk and liquidity cushion;
- f) A description of limit setting policies including limits placed on internal ratios and key metrics; and
- g) An overview of stress tests used, including description of scenarios used and the role of stress testing in management of liquidity risk.

88. RFIs shall disclose the above information on their websites and submit same to BOG by **31st March** of the ensuing year. The disclosure shall be made in the Audited Financial Statements and shall be done in a manner that is clear, unambiguous and meaningful to all RFIs' stakeholders.

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PART VI - SANCTIONS AND REMEDIAL MEASURES

89. An RFI that fails to comply with the requirements of this Directive shall be sanctioned in accordance with section 40 and section 92 (8) of Act 930, in addition to any other relevant remedial measures and related sanctions as stipulated in this Act.

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